

IMPACT OF CASH FLOW MANAGEMENT ON THE SUSTAINABILITY OF INDONESIAN MSMEs

Vivi Adeyani Tandean¹, Eko Kusnadi², Samuel PD Anantadjaya³, Irma M Nawangwulan⁴

¹STIE Wiyatamandala

²STIA Satya Negara Palembang

³IPMI Institute, Kalibata, Jakarta

⁴IULI (International University Liason Indonesia), BSD City, Tangerang Selatan

e-mail: vivi.tandean@wym.ac.id¹, kusnadieko12@co.id², ethan.eryn@gmail.com³, mnwulan@gmail.com⁴,

Abstrak

UMKM memiliki dampak yang sangat besar terhadap perekonomian Indonesia karena memberikan kontribusi yang cukup besar terhadap penyerapan tenaga kerja dan Produk Domestik Bruto (PDB). Namun demikian, bisnis-bisnis ini memiliki banyak kendala, terutama di bidang manajemen arus kas, yang sangat penting untuk menjaga stabilitas keuangan dan memfasilitasi prospek ekspansi. Manajemen arus kas yang efisien menjamin bahwa organisasi dapat memenuhi tanggung jawab keuangan yang mendesak dan mengalokasikan dana untuk usaha-usaha strategis. Usaha mikro, kecil, dan menengah (UMKM) di Indonesia sering kali menghadapi tantangan dalam mengelola arus kas secara efektif. Kesulitan-kesulitan ini muncul karena terbatasnya akses ke sumber daya keuangan dan kurangnya pengetahuan keuangan yang dimiliki oleh pemilik dan manajemen. Pandemi COVID-19 telah memperburuk kerentanan ini, sehingga menekankan perlunya strategi manajemen arus kas yang kuat untuk bertahan dari guncangan ekonomi. Kegiatan komunitas ini berfokus pada pentingnya meningkatkan metode manajemen arus kas untuk memperkuat keberlanjutan dan ketahanan usaha mikro, kecil, dan menengah (UMKM), terutama di negara berkembang seperti Indonesia.

Kata kunci: Manajemen Arus Kas, UMKM, Keberlanjutan Usaha, Literasi Keuangan, Indonesia

Abstract

MSMEs have a huge impact on the Indonesian economy since they provide substantial contributions to both employment and Gross Domestic Product (GDP). Nevertheless, these businesses have a multitude of obstacles, particularly in the realm of cash flow management, which is crucial for preserving financial stability and facilitating expansion prospects. Efficient cash flow management guarantees that organizations can fulfill immediate financial responsibilities and allocate funds towards strategic ventures. Indonesian micro, small, and medium enterprises (MSMEs) frequently have challenges in effectively managing their cash flow. These difficulties arise from their restricted access to financial resources and the insufficient financial knowledge possessed by their owners and management. The COVID-19 epidemic has worsened this susceptibility, emphasizing the necessity for strong cash flow management strategies to endure economic shocks. This community activity focuses on the significance of enhancing cash flow management methods to strengthen the sustainability and resilience of micro, small, and medium enterprises (MSMEs), particularly in developing nations like Indonesia.

Keywords: Cash Flow Management, MSMEs, Business Sustainability, Financial Literacy, Indonesia

INTRODUCTION

MSMEs play a crucial role in the Indonesian economy, making substantial contributions to both employment and gross domestic product (GDP). As per the Ministry of Cooperatives and SMEs, Micro, Small, and Medium Enterprises (MSMEs) make up over 99 percent of all business entities in Indonesia and support the livelihoods of millions of individuals (T. T. H. Tambunan, 2017). These firms operate in multiple areas, such as agriculture, manufacturing, and services, which showcases the broad economic landscape of Indonesia (Aminullah et al., 2022; MAZ & GAZIOĞLU, 2023). Although MSMEs are crucial, they encounter numerous obstacles that jeopardize their capacity to continue and expand, with cash flow management being a particularly significant one (Aminullah et al., 2022; Patil et al., 2021; T. Tambunan, 2022).

Cash flow management is the practice of monitoring, analyzing, and optimizing the net amount of cash received minus cash spent. Liquidity management is a crucial component of financial management that guarantees a company's ability to fulfill its immediate financial obligations and

pursue prospects for expansion. Efficient cash flow management is essential for retaining sufficient funds, reducing borrowing expenses, and avoiding financial difficulties (Bagade et al., 2023; Kotios et al., 2022; Li et al., 2020). Nevertheless, numerous micro, small, and medium enterprises (MSMEs) in Indonesia are currently facing challenges with their cash flow as a result of a range of internal and external issues (Farida et al., 2019; Indriastuti & Kartika, 2022; Saptia et al., 2021; Winarsih et al., 2021).

A primary obstacle encountered by Indonesian micro, small, and medium enterprises (MSMEs) is the constrained availability of financial capital (Susan, 2020). A significant number of small enterprises heavily depend on personal savings and informal loan channels, which are both unpredictable and expensive. Small businesses sometimes struggle to meet the stringent criteria set by the conventional banking system (Supriandi, 2022). The limited availability of inexpensive financing hinders the ability of MSMEs to efficiently handle their cash flow and address unforeseen financial needs (Maswin & Sudrajad, 2023).

Furthermore, the lack of sufficient financial knowledge among owners and managers of MSMEs worsens the difficulties in managing cash flow (Saksonova & Papiashvili, 2021). A significant number of entrepreneurs lack the requisite expertise and understanding to uphold precise financial documentation, predict cash inflows and outflows, and execute efficient cash management tactics (Anantadjaya, et al., 2024). These deficiencies can result in suboptimal decision-making and heighten the likelihood of cash deficits, ultimately jeopardizing the viability of the organization (Diyani et al., 2023).

The COVID-19 epidemic has underscored the susceptibility of MSMEs to cash flow interruptions. The economic recession and its accompanying limitations have had a profound effect on consumer demand and supply chains, resulting in reduced income and heightened operational difficulties for enterprises. Micro, Small, and Medium Enterprises (MSMEs), who have minimal financial reserves, are facing significant challenges. This highlights the importance of implementing strong cash flow management strategies that can resist economic disruptions and assure the ongoing operation of these businesses.

The significance of effectively managing cash flow for the uninterrupted operation of a firm has been extensively discussed in the literature. Businesses that efficiently oversee their cash flows are more likely to sustain liquidity, decrease the cost of financing, and pursue strategic growth possibilities. On the other hand, inadequate management of cash flow can result in financial challenges, heightened borrowing expenses, and ultimately the collapse of a corporation. Hence, enhancing the implementation of cash flow management strategies is crucial for the long-term viability and adaptability of micro, small, and medium enterprises (MSMEs), particularly in emerging economies like Indonesia.

METHOD

In this study, the research method was carried out in three stages. First, the preparation of online seminars conducted through the Zoom Meeting application. Second, registration through google form, and finally the implementation of ToT (Training for Trainers) which was conducted in June 2024.

RESULTS AND DISCUSSION

Findings from this offline seminar highlighted important elements of cash flow management among micro, small and medium-sized enterprises (MSMEs) in Indonesia. Most MSMEs indicated that they utilise basic cash flow management techniques, such as preparing cash flow statements and regularly monitoring cash inflows and outflows. However, a small number of respondents indicated the use of sophisticated cash flow forecasting methods to anticipate upcoming financial needs.



Figure 1. The beginning of the discussion

In addition, this service provides benefits for better cash flow management in MSMEs. Several challenges exist in effectively managing cash flow. The most common challenges are delayed payments from customers, high operational costs, and limited access to credit. These challenges are more pronounced among small enterprises with fewer resources.

This service further invites MSMEs to make a simulation of cash flow generation as shown in Figure 2 below.



Figure 3. Cash Flow Budget

Effective cash flow management and business sustainability. MSMEs that regularly monitor their cash flow and use forecasting tools report better financial stability and growth prospects. Conversely, businesses that face cash flow difficulties are more likely to experience financial difficulties and operational disruptions for which this seminar provides ways of formulating COGS.



Figure 4. Training on MSME Capability

Improving cash flow management practices can significantly increase the financial resilience of MSMEs. Training programmes that focus on financial literacy and cash flow forecasting can empower business owners with the skills needed to manage their finances more effectively.

The results of this community service activity show the importance of effective cash flow management for the sustainability of micro, small, and medium enterprises (MSMEs) in Indonesia. Most of the MSMEs involved in this activity utilise basic cash flow management techniques, such as the preparation of cash flow statements and regular monitoring of cash inflows and outflows.

However, only a few utilise more sophisticated cash flow forecasting methods to anticipate future financial needs, this is also in line with research (Santoso et al., 2020).

This limited use of sophisticated forecasting techniques indicates a gap in financial management knowledge and skills among MSME owners and managers. This gap becomes more pronounced when facing common challenges such as late payments from customers, high operating costs, and limited access to credit. These challenges are more pronounced in small MSMEs that have limited resources (Rasjid, 2022).

The exercise also highlighted that MSMEs that regularly monitor their cash flow and use forecasting tools report better financial stability and brighter growth prospects. In contrast, businesses that experience cash flow difficulties are likely to face financial problems and operational disruptions, which can ultimately threaten the viability of the business.

The training provided in this activity was proven to improve cash flow management practices among participants. The knowledge gained from the training enabled participants to identify financial problems early and take appropriate actions to prevent cash flow crises. In addition, the training also encouraged the adoption of more proactive and planned financial management strategies, which is crucial in the face of economic uncertainty.

CONCLUSION

This community service shows that a large number of MSMEs in Indonesia use rudimentary cash flow management methods, but few use sophisticated cash flow forecasting approaches to predict future financial needs. Common difficulties include late customer payments, rising operational costs, and limited credit availability. These problems are particularly evident among small firms with limited resources. The findings of this study emphasise the importance of efficient cash flow management in ensuring financial stability and promoting business expansion. MSMEs that consistently track their cash flows and utilise forecasting tools show improved financial stability and growth potential. On the other hand, companies that have cash flow challenges are more prone to face financial problems and disruptions in their operations.

SUGGESTIONS

Enhancing financial literacy through training is a crucial measure to provide MSME owners with the necessary skills for financial management. Promoting laws that ensure cheap access to finance can decrease dependence on costly credit. Implementing effective cash flow forecasting methodologies and bolstering business resilience through supportive activities contribute to the long-term viability of micro, small, and medium enterprises (MSMEs).

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